AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian dollars

	Note	June 30, 2020 $	December 31, 2019 $
ASSETS			
Current			
Cash and cash equivalents	4	324,767	484,506
Inventory		-	5,429
Amounts receivable		550,646	556,296
Prepaid expenses		47,218	61,503
		922,631	1,107,734
Property and equipment	5	8,115	11,093
Intangible assets, net	6	-	84,795
Right of use lease asset, net	7	409,170	469,049
Total assets		1,339,916	1,672,671
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
LIABILITIES			
Current			
Accounts payable	15	313,450	249,528
Accrued liabilities	15	32,635	83,000
Lease liability – current	8	145,360	143,520
		491,445	476,048
COVID-19 relief line of credit	10	40,000	-
Lease liability	8	255,211	308,353
Convertible debt, net	9	1,964,486	1,765,364
Total liabilities		2,751,142	2,549,765
SHAREHOLDERS' DEFICIT			
Share capital	12	19,065,433	19,082,670
Contributed surplus		3,805,934	3,694,766
Deficit		(24,282,593)	(23,654,530)
Total shareholders' deficit		(1,411,226)	(877,094)
Total liabilities and shareholders' equity (deficit)		1,339,916	1,672,671

Nature of operations and going concern (Note 1)
Subsequent events (Note 17)

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on August 27, 2020 and signed on its behalf by:

"Christopher Clark"
Director

"Jason Flowerday"
Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

Unaudited - Expressed in Canadian dollars

	Note	Three Month Ended June 30, 2020 $	Three Month Ended June 30, 2019 $	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
Revenue		542,992	397,263	1,122,442	726,259
Expenses					
Research and development	14	13,740	52,493	28,057	121,571
Sales and marketing	14	270,296	451,185	721,442	960,281
General administration	14	481,608	575,841	1,004,301	1,058,372
		765,644	1,079,519	1,753,800	2,140,224
Loss before other income (loss)		(222,652)	(682,256)	(631,358)	(1,413,965)
Other income (loss)					
Interest income	4	20	4,624	3,033	5,373
Foreign exchange loss		384	(371)	262	374
		404	4,253	3,295	5,747
Net loss and comprehensive loss		(222,248)	(678,003)	(628,063)	(1,408,218)
Basic and diluted loss per common share		(0.00)	(0.01)	(0.01)	(0.02)
Weighted average number of common shares outstanding – basic and diluted		80,436,970	80,436,970	80,437,970	80,437,181

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

AEQUUS PHARMACEUTICALS INC.

// CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

Expressed in Canadian dollars

	Common Shares		Contributed Surplus	Deficit	Total
	Number	$	$	$	$
Balance, December 31, 2018	80,436,970	18,934,573	3,297,163	(20,550,102)	1,681,634
Share based payments	-	-	120,956	-	120,956
Adjustment on adoption of IFRS 16 (Note 3)	-	-	-	1,676	1,676
Warrants exercised	1,000	220	-	-	220
Issuance of convertible debt	-	147,877	79,626	-	227,503
Broker warrants	-	-	116,973	-	116,973
Net loss for the period	-	-	-	(1,408,218)	(1,408,218)
Balance, June 30, 2019	80,436,970	19,082,670	3,614,718	(21,956,644)	740,744
Share based payments	-	-	80,048	-	80,048
Net loss for the period	-	-	-	(1,697,886)	(1,697,886)
Balance, December 31, 2019	80,437,970	19,082,670	3,694,766	(23,654,530)	(877,094)
Share based payments	-	-	111,168	-	111,168
Share issuance cost	-	(17,237)	-	-	(17,237)
Net loss for the period	-	-	-	(628,063)	(628,063)
Balance, June 30, 2020	80,437,970	19,065,433	3,805,934	(24,282,593)	(1,411,226)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

// CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

Unaudited - Expressed in Canadian dollars

	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
OPERATING ACTIVITIES		
Net loss	(628,063)	(1,408,218)
Add items not affecting cash:		
Convertible debt accretion expense	199,122	29,767
Depreciation of property and equipment	2,978	10,005
Depreciation of intangible assets	84,795	84,794
Depreciation of right of use asset	59,879	59,878
Interest expense	20,458	24,971
Share-based payments	111,168	120,956
	(149,663)	(1,077,847)
Changes in non-cash working capital items relating to operations:		
Amounts receivable	5,650	298,145
Inventory	5,429	7,264
Prepaid expenses	14,285	26,888
Accounts payable and accrued liabilities	13,560	(11,365)
Cash used in operating activities	(110,739)	(756,915)
FINANCING ACTIVITY		
Issuance of common shares, net of issuance costs	(17,237)	220
Issuance of convertible debt, net of issuance costs	-	1,914,187
COVID-19 relief line of credit	40,000	-
Payments of lease obligation	(71,760)	(69,920)
Cash provided by (used in) financing activities	(48,997)	1,844,487
Increase (decrease) in cash and cash equivalents	(159,736)	1,087,572
Cash and cash equivalents, beginning	484,506	369,892
Cash and cash equivalents, ending	324,770	1,457,464

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN //

Aequus Pharmaceuticals Inc. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on January 3, 2013 and is a public company listed on the TSX Venture Exchange (the "Exchange") under the symbol "AQS". The Company is a specialty pharmaceutical company with a sales force that markets third party products for which the Company receives revenues based on agreed upon percentages of net sales. The company also has a portfolio of internally developed clinical stage reformulated products.

The Company's registered and records office is located at Suite 2600, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1L3 and its head office is located at Suite 2820, 200 Granville Street, Vancouver, British Columbia, Canada, V6C 1S4.

These condensed consolidated interim financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Realization values may be substantially different from the carrying values as shown, and these condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classifications of assets and liabilities should the Company be unable to continue as a going concern.

The recent outbreak of the coronavirus, also known as "COVID-19", continues to impact worldwide economic activity. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

The Company has incurred losses and negative operating cash flows since its inception. As of June 30, 2020, the Company has accumulated a deficit of $24,282,593 (December 31, 2019 - $23,654,530). The Company will require further financing to meet its financial obligations and sustain its operations in the normal course of the business. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to meet its long-term business strategy depends on its ability to obtain additional equity financing and to generate operational cash flow from commercial services revenue.

2. BASIS OF PRESENTATION //

[a] Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting." They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited financial statements for the fiscal year ended December 31, 2019, which have been prepared with International Financial Reporting Standards ("IFRS"). These condensed consolidated interim financial statements were approved by the Company's Audit Committee on behalf of its Board of Directors on August 27, 2020.

[b] Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

2. BASIS OF PRESENTATION (CONTINUED)

[c] Functional and foreign currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. Foreign currency transactions are translated into Canadian dollars using the exchange rates at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of transactions and from the translation at year-end rate of monetary assets and liabilities denominated in foreign currencies are recognized in net income or loss.

[d] Significant accounting estimates and judgments

The preparation of these condensed consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company reviews its estimates and underlying assumptions on an ongoing basis.

CRITICAL JUDGMENTS

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements:

i. Research costs are recognized as an expense when incurred but development costs may be capitalized as intangible assets if certain conditions are met as described in IAS 38, *Intangible Assets*. Management has determined that development costs do not meet the conditions for capitalization under IAS 38 and all research and development costs have been expensed.

ii. Management is required to assess the functional currency of the Company and its subsidiary. In concluding that the Canadian dollar is the functional currency of the Company and its subsidiary, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company and its subsidiary operate.

iii. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

iv. Management is required to determine whether or not the going concern assumption is appropriate for the Company at the end of each reporting period. Considerations taken into account include available information about the future including the availability of financing and revenue projection, as well as current working capital balance and future commitments of the Company.

2. BASIS OF PRESENTATION (CONTINUED)

[d] Significant accounting estimates and judgments (continued)

ESTIMATION UNCERTAINTY

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

i. Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxation authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

ii. The fair value of accrued liabilities at the time of initial recognition is made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors.

iii. Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Amortization is calculated using management's best estimate of the useful life of the intangible assets. Determination of impairment loss is subject to management's assessment if there is any indication of a possible write-down; and if so, the determination of recoverable value based on discounted future cash flows of the intangible assets. The carrying amount of intangible assets does not necessarily reflect present or future value and the ultimate amount recoverable will be dependent upon the successful commercialization of products based on these underlying technologies.

iv. Revenues are recognized based on a calculation of estimated profits using actual third-party sales figures. Changes in estimates of revenues, including changes in estimates of revenue due to returns, are recognized prospectively as adjustments to revenue and amounts receivable. When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense. At each reporting period the entity reviews and, when necessary, revises the estimates of revenue as services are performed.

3. SIGNIFICANT ACCOUNTING POLICIES //

The significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below which have been applied to all the years presented, unless otherwise stated. Please refer to the audited financial statements for the year ended December 31, 2019 for a full list of policies.

Amendments to IAS 1 and IAS 8

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRS Interpretations Committee that are mandatory for fiscal periods beginning on or after January 1, 2020.

Amendments to IAS 1 and IAS 8: Definition of Material: In October 2018, the IASB issued amendments to IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amendments to IAS 1 and IAS 8 (continued)

The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments to the definition of material did not have a significant impact on the Company's condensed consolidated interim financial statements.

4. CASH AND CASH EQUIVALENTS //

	June 30, 2020 $	December 31, 2019 $
Cash	324,539	182,779
Short-term investment	228	301,727
Total Cash and Cash Equivalents	324,767	484,506

At June 30, 2020, the Company has a variable rate investment of $nil (December 31, 2019 - $300,000) as the Company redeemed the investment in full. During the six months ended June 30, 2020, the Company recognized interest income of $3,033 (June 30, 2019 - $5,373).

5. PROPERTY AND EQUIPMENT //

	Office Furniture and Equipment $	Computer Equipment $	Website Costs $	Total $
Cost:				
Balance, December 31, 2018	10,553	12,973	42,235	69,972
Addition	-	2,679	-	2,679
Balance, December 31, 2019	10,553	15,652	42,235	72,651
Addition	-	-	-	-
Balance, June 30, 2020	10,553	15,652	42,235	72,651
Accumulated depreciation:				
Balance, December 31, 2018	6,952	2,518	28,156	41,837
Depreciation	1,585	4,057	14,079	19,721
Balance, December 31, 2019	8,537	6,575	42,235	61,558
Depreciation	504	2,474	-	2,978
Balance, June 30, 2020	9,041	9,049	42,235	64,536
Net book value:				
As of December 31, 2019	2,016	9,077	-	11,093
As of June 30, 2020	1,512	6,603	-	8,115

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

6. INTANGIBLE ASSETS //

[a] On July 28, 2015, the Company acquired all issued and outstanding shares of TeOra for its sales and marketing capabilities, and a right to promote and market PR Vistitan™, an ophthalmology product, within Canada. In exchange for these assets and continuing services of TeOra's management, the Company issued 3,360,000 common shares of the Company with a fair value of $1,002,120, repaid TeOra's liabilities of $154,817 in cash and incurred transaction costs of $82,448 for a total acquisition cost of $1,239,385. 2,940,000 common shares were held in escrow for release over time for services performed and upon achievement of certain milestones.

During the year ended December 31, 2018, the Company extended the term for its promotional service agreement related to Vistitan to June 2021, with an option for renewal upon mutual agreement.

[b] On February 12, 2016, the Company entered into a licensing agreement with Supernus Pharmaceuticals, Inc. for Canadian commercial rights to Topiramate XR and Oxcarbazepine XR, two branded products for the treatment of epilepsy (the "Supernus Agreement"). Pursuant to the terms of the Supernus Agreement, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay an aggregate of US$3.6 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR, US$1.5 million on net sales of Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada. During the year ended December 31, 2019, the Company recognized an impairment of $478,940 due to the Company's limited ability to pay the future milestone payments in the next year.

	TeOra Assets $	Supernus Licensing Fee $	Total $
Cost:			
Balance, December 31, 2018	847,945	478,940	1,326,885
Impairment	-	(478,940)	(478,940)
Balance, December 31, 2019 & June 30, 2020	847,945	-	847,945
Accumulated amortization:			
Balance, December 31, 2018	593,561	-	593,561
Amortization of intangible assets	169,589	-	169,589
Balance, December 31, 2019	763,150	-	763,150
Amortization of intangible assets	84,795	-	84,795
Balance, June 30, 2020	847,945	-	847,945
Net book value:			
As of December 31, 2019	84,795	-	84,795
As of June 30, 2020	-	-	-

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

7. RIGHT OF USE LEASE ASSET //

The Company's right-of-use asset relates to the lease of office space.

On adoption of IFRS 16, the group recognized lease liabilities which had previously been classified as 'operating leases' under IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 9.5%.

Cost:	$
Balance at January 1, 2019, on adoption of IFRS 16	588,806
Accumulated amortization:	
Balance at January 1, 2019, on adoption of IFRS 16	-
Depreciation for the year	119,757
Balance, December 31, 2019	119,757
Depreciation for the period	59,879
Balance, June 30, 2020	179,636
Net book value:	
As of January 1, 2019, on adoption of IFRS 16	588,806
As of December 31, 2019	469,049
As of June 30, 2020	409,170

8. LEASE LIABILITY //

	$
Balance at January 1, 2019, on adoption of IFRS 16	544,256
Interest expense	47,763
Lease payments	(140,146)
Balance, December 31, 2019	451,873
Interest expense	20,458
Lease payments	(71,760)
Balance, June 30, 2020	400,571
Which consist of:	
Current lease liability	145,360
Non-current lease liability	255,211
Balance, June 30, 2020	400,571

On December 1, 2018, the Company renewed the lease agreement for its Vancouver head office premise for five years expiring November 30, 2023. Pursuant to this renewal, the Company is obligated to pay basic rent of $11,653 and operating costs including electricity and related taxes at approximately $7,457, on a monthly basis. The base annual rent will increase to $139,840 for the year ended December 31, 2019, $143,520 for the year ended December 31, 2020 and $147,200, $150,880, and $154,560 in each of the following years.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

9. CONVERTIBLE DEBT //

On May 2, 2019, the Company issued convertible debenture units ("Convertible Debenture Unit") of the Company at a price of $1,000 per Convertible Debenture Unit for proceeds of $2,348,000. Each Convertible Debenture Unit consisted of one 9.5% unsecured convertible debenture in the amount of $1,000 and 2,380 warrants. Each Convertible Debenture Unit is convertible at the option of the holder into common shares (each, a "Debenture Share") at $0.21, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing May 2, 2022. The Company issued 5,588,240 warrants pursuant to the debenture financing. Each warrant entitles the holder to purchase one common share at $0.22 any time up to May 2, 2022.

The fair value of the liability component of the convertible debt using an imputed interest rate of 15%. The fair value of the liability component was determined to be $2,120,497, with the residual amount of $227,503 being allocated to equity. The Company allocated $79,626 of the equity portion to contributed surplus related to the detachable warrants. The detachable warrants were valued using the Black-Scholes Option Pricing Model under the following assumptions: a risk-free interest rate of 1.61%, estimated annualized volatility of 90.35%, an expected life of 3 years, nil dividend yield, $0.22 exercise price and a $0.185 share price.

In relation to the financing, the Company paid $177,646 in cash commission, $283,942 in other financing fees and issued 1,173,842 broker warrants. Each broker warrant is exercisable into one common share at $0.22 until May 2, 2022. The Company recognized $116,973 as share issue cost related to the broker warrants which were valued using the Black-Scholes Option Pricing Model under the following assumptions: a risk-free interest rate of 1.6%, annualized volatility of 90%, an expected life of 3 years, nil dividend yield, $0.22 exercise price and a $0.185 share price. The total costs associated with issuing the convertible debt totaled $578,561 and was allocated to the liability and equity component on a prorated basis of the convertible debt.

For the six months ended June 30, 2020, the Company recorded $111,530 of interest expense and $199,122 in accretion expense (June 30, 2019 – 29,767) related to the convertible debt.

A continuity schedule of the convertible notes is as follows:

	$
Balance, January 1, 2019	-
Proceeds on issuance of convertible notes	2,348,000
Amount allocated to equity on issuance	(227,503)
Commission expense	(461,588)
Amount allocated to broker warrants	(116,973)
Accretion expense	223,428
Balance, December 31, 2019	1,765,364
Accretion expense	199,122
Balance, June 30, 2020	1,964,486

10. COVID-19 Relief Line of Credit

The Company was approved for a $40,000 COVID-19 Relief Line of Credit (via Canada Emergency Business Account Program). The loan is a 0% interest operating line of credit until December 31, 2020. On January 1, 2021, this line of credit will convert to a 2-year, 0% interest term loan to be repaid by December 31, 2022. Balance forgiveness of 25% applies if repaid in full by December 31, 2022. If, by December 31, 2022, the option for 3-year term extension is exercised, the remaining unpaid balance of the loan will incur 5% interest during the term extension period. The remaining balance must be paid in full by December 31, 2025.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

11. RELATED PARTY DISCLOSURE //

[a] Transactions with related parties

Related parties include members of the Board of Directors and officers of the Company, and enterprises controlled by these individuals. The following fees and expenses were incurred:

	Three Months Ended June 30, 2020 $	Three Months Ended June 30, 2019 $	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
Management [i] [ii] [iii] [v] [vi]	137,986	157,002	291,967	296,490
Consulting [iv]	-	1,149	-	7,321
Total	137,986	158,151	291,967	303,811

[i] Effective December 1, 2016, the Company entered into a consulting agreement with Northview Ventures Inc. ("NVI") and Doug Janzen, the Chief Executive Officer of the Company. During the six months ended June 30, 2020, NVI received $105,000 (June 30, 2019 - $90,000) in management fees.

[ii] Ms. Stevens was compensated at a monthly rate of $10,449 from August 31, 2018 to September 30, 2019, and $15,625 thereafter. During the six months ended June 30, 2020, Ms. Stevens received $85,938 (June 30, 2019 - $62,696) in salaries.

[iii] The Company entered into a consulting service agreement with Mr. Ian Ball who served as the Chief Commercial Officer of the Company. During the six months ended June 30, 2020, the Company recognized management fee expense of $15,000 (June 30, 2019 - $72,000) related to Mr. Ball's services.

[iv] The Company entered into a consulting service agreement with Dr. Donald McAfee, the Acting Chief Scientific Officer of the Company. Pursuant to the consulting agreement, Dr. McAfee was compensated at a daily rate of US$1,000. During the six months ended June 30, 2020, Dr. McAfee charged total consulting fees of $nil (June 30, 2019 - $7,321).

[v] The Company entered into a consulting service agreement with Fehr & Associates and Ann Fehr, the Chief Financial Officer of the Company. Pursuant to this consulting agreement, Mrs. Fehr is compensated at a rate of $1,000 per month plus $120 per hour. During the six months ended June 30, 2020, Fehr & Associates charged total consulting fees of $56,029 (June 30, 2019 - $71,793) for CFO and outsourced accounting services.

As of June 30, 2020, the Company has included in its accounts payable and accrued liabilities $8,627 (December 31, 2019 - $5,299) due to Fehr & Associates.

[vi] The Company entered into a consulting service agreement with Transcend Research and Consulting and Stuart Fowler, a director and strategic commercial advisor of the Company. During the six months ended June 30, 2020, the Company recognized consulting expense of $30,000 (June 30, 2019 - $nil) related to Mr. Fowler's services.

As of June 30, 2020, the Company has included in its accounts payable $5,000 (December 31, 2019 - $nil) due to Stuart Fowler.

The amounts owing to the related parties as described above are non-secured, non-interest bearing, with no specific terms of repayment.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

11. RELATED PARTY DISCLOSURE (CONTINUED)

[b] Key management compensation

Key management includes members of the Board of Directors and executive officers of the Company. Compensation awarded to key management is listed below:

	Three Months Ended June 30, 2020 $	Three Months Ended June 30, 2019 $	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
Management, wages and related, General administration	96,142	114,514	188,248	211,516
Management, wages and related, Research and development	7,313	19,087	15,750	38,174
Management, wages and related, Sales and marketing	34,531	23,400	87,969	46,800
Consulting, Research and development	-	1,149	-	7,321
Share-based payments, General administration	26,694	8,435	31,146	17,677
Share-based payments, Research and development	1,655	5,769	3,292	11,913
Share-based payments, Sales and marketing	27,095	1,782	48,561	4,076
Total	193,430	174,136	374,966	337,478

[c] Other

The Company entered into two separate sublease agreements with Northview Lifesciences and Fehr & Associates for recovery of rent expense. During the six months ended June 30, 2020, the Company received $313 and $25,806 (June 30, 2019 - $3,690 and $26,250), respectively.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

12. SHARE CAPITAL

[a] Preferred shares

The authorized share capital of the Company consists of an unlimited number of Class A preferred shares without par value. As of June 30, 2020, and December 31, 2019, there were no preferred shares issued and outstanding.

[b] Common shares

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

During the period ended June 30, 2020:

[i] There were no share issuances.

During the year ended December 31, 2019:

[i] During the year ended December 31, 2019, 1,000 share purchase warrants were exercised at $0.22 and the Company issued 1,000 common shares for proceeds of $220.

[c] Common share purchase warrants

Common share purchase warrant transactions and the number of common share purchase warrants outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2018	13,562,500	0.41
Issued	5,588,240	0.22
Expired	(8,625,000)	(0.45)
Exercised	(1,000)	(0.22)
Balance, December 31, 2019	10,524,740	0.28
Expired	(1,000,000)	(0.50)
Balance, June 30, 2020	9,524,740	0.25

Date of Expiry	Number of Warrants Outstanding	Exercise Price $
August 9, 2020	3,937,500	0.30
May 2, 2022	5,587,240	0.22
Balance, June 30, 2020	9,524,740	

The remaining life of the common share purchase warrants as of June 30, 2020 is 1.12 years (December 31, 2019 – 1.48 years).
Subsequent to June 30, 2020 3,937,500 common share purchase warrants expired unexercised.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[d] Agents' warrants and broker's warrants

	Number	Weighted Average Exercise Price $
Balance, December 31, 2018	1,028,750	0.30
Issued	1,173,842	0.22
Expired	(862,500)	(0.30)
Balance, December 31, 2019 and June 30, 2020	1,340,092	0.23

Date of Expiry	Number of Warrants Outstanding	Exercise Price $
August 9, 2020	166,250	0.30
May 2, 2022	1,173,842	0.22
Balance, June 30, 2020	1,340,092	

The remaining life of the agents' warrants at June 30, 2020 is 1.62 years (December 31, 2019 – 2.12 years). Subsequent to June 30, 2020 166,250 agents' warrants expired unexercised.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[e] Stock options

On December 10, 2014, the Company adopted a stock option plan (the "Stock Option Plan") providing the granting of options to employees, officers, directors, consultants and scientific advisory board members. The Stock Option Plan was subsequently amended on February 4, 2015 to meet the listing requirements of the Exchange. On June 15, 2015, August 19, 2016, June 12, 2017, and June 26, 2019. the Company further amended its Stock Option Plan (the "Amended and Restated Stock Option Plan").

The maximum number of common shares issuable under the Amended and Restated Stock Option Plan is fixed at 16,000,000 common shares. Under the Amended and Restated Stock Option Plan, the maximum number of common shares that may be optioned in favor of any single individual will not exceed 5% of the issued and outstanding common shares at the date of grant. The maximum number of common shares that may be optioned in favor of directors and senior officers under the Stock Option Plan is 10% of the issued and outstanding common shares at the date of grant. The options can be granted for a maximum term of 10 years.

During the six months ended June 30, 2020, the Company recorded share-based payments of $111,168 (June 30, 2019 - $120,956) related to stock options which vested in the period. The fair values of 1,574,337 stock options granted during the six months ended June 30, 2020 are estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Risk-free interest rate	0.80%	1.91%
Estimated annualized volatility	92.31%	91.24%
Expected life	8 years	8 years
Expected dividend yield	0%	0%
Exercise price	$0.10	$0.18
Fair value per option	$0.08	$0.14

Stock option transactions and the number of stock options outstanding are summarized below:

	Number	Weighted Average Exercise Price $
Balance, December 31, 2018	7,998,278	0.30
Expired	(600,000)	(0.16)
Granted	700,000	0.18
Balance, December 31, 2019	8,098,278	0.30
Expired	(1,124,337)	(0.25)
Cancelled	(1,278,941)	(0.37)
Granted	1,574,337	0.10
Balance, June 30, 2020	7,269,337	0.25

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

[e] Stock options (continued)

Date of Expiry	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
December 12, 2021	$0.35	565,000	565,000
December 18, 2022	$0.55	350,000	350,000
March 6, 2023	$0.55	350,000	350,000
July 9, 2023	$0.57	150,000	150,000
April 21, 2024	$0.47	510,000	510,000
July 22, 2024	$0.35	150,000	150,000
December 6, 2025	$0.20	1,840,000	1,390,000
April 26, 2026	$0.25	30,000	30,000
July 23, 2026	$0.20	350,000	262,500
November 6, 2026	$0.18	800,000	600,000
February 1, 2027	$0.18	600,000	275,000
Feb 14, 2028	$0.13	450,000	200,000
June 4, 2028	$0.09	1,124,337	562,169
Total	$0.25	7,269,337	5,394,669

As of June 30, 2020, the weighted average remaining life for outstanding options was 5.41 years (December 31, 2019 – 4.70 years).

13. COMMITMENTS AND CONTINGENCIES //

[a] Licensing agreement

Pursuant to the terms of the Supernus Agreement *[Note 7[b]]*, and in addition to the upfront payment of $478,940 (US$350,000), the Company is further obligated to pay an aggregate of US$5.15 million in milestone payments upon the achievement of specified regulatory milestones, mid-teen royalty on net sales of Topiramate XR and Oxcarbazepine XR, as well as a milestone payment of US$1.5 million linked to achievement of specified cumulative net sales from both Topiramate XR and Oxcarbazepine XR. The Company is responsible for the regulatory submission and commercial activities for both products in Canada. The term of the Supernus Agreement will continue as long as the Topiramate XR and Oxcarbazepine XR products are sold in Canada. During the year ended December 31, 2019, the Company recognized an impairment loss of $478,940 due to the Company's limited ability to pay the future milestone payments in the next year.

[b] Contingencies

The Company has entered into agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third-party claims or damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions may survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay.

As of June 30, 2020, and December 31, 2019 the Company had not made any indemnification payments under such agreements and no amount had been accrued in the condensed consolidated interim financial statements with respect to these indemnification obligations.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

14. OPERATING EXPENSES //

[a] Research and development expenses

	Three Months Ended June 30, 2020 $	Three Months Ended June 30, 2019 $	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
Consulting *[note 11]*	-	1,149	-	27,079
Patent and intellectual property protection	1,183	13,961	1,794	18,729
Management, wages, and related *[note 11]*	7,313	21,587	15,750	43,174
Share-based payments *[notes11]*	5,244	15,725	10,430	31,601
Travel and accommodation	-	71	83	988
Total	13,740	52,493	28,057	121,571

[b] Sales and marketing expenses

	Three Months Ended June 30, 2020 $	Three Months Ended June 30, 2019 $	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
Advertising and promotion	25,196	15,517	38,154	46,575
Depreciation and amortization *[notes 5 & 6]*	43,888	47,400	87,774	94,800
Printing and other expenses	4,177	4,930	5,942	6,917
Management, wages, and related *[note 11]*	15,000	23,400	45,000	46,800
Salesforce	146,511	248,738	421,461	530,898
Share-based payments *[notes 11]*	33,789	15,362	65,737	49,481
Travel and accommodation	1,735	95,838	57,374	184,810
Total	270,296	451,185	721,442	960,281

[c] General administration expenses

	Three Months Ended June 30, 2020 $	Three Months Ended June 30, 2019 $	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
Consulting	32,098	146,125	63,911	246,079
Legal and professional fees	22,310	31,634	79,178	70,046
Other general administration expenses	101,987	76,718	192,982	164,324
Interest expense	67,833	48,167	137,568	60,918
Accretion expense *[note 9]*	105,471	29,767	199,122	29,767
Regulatory and transfer agent fees	7,361	15,310	30,661	38,654
Management, wages, and related *[note 11]*	112,724	175,253	228,709	322,673
Share-based payments *[notes 11]*	28,427	19,037	35,001	39,873
Travel and accommodation	3,397	33,830	37,169	86,038
Total	481,608	575,841	1,004,301	1,058,372

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT //

Fair value

The Company's financial instruments at June 30, 2020 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and convertible debentures. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to their short-term nature.

IFRS 13 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs used in making fair value measurements as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 - inputs for the asset or liability that are not based upon observable market data.

The fair value of cash and cash equivalents is based on Level 1 inputs and the fair value of the liability component of convertible debt is based on Level 2 inputs.

[a] Credit risk

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises for the Company from its cash and cash equivalents and amounts receivable. The Company has adopted practices to mitigate against the deterioration of principal, to enhance the Company's ability to meet its liquidity needs, and to optimize yields within those parameters. These investment practices limit the investing of excess funds to liquid term deposits or cashable guaranteed investments ("GIC") with banks, and government guaranteed securities with maturities of one year or less. The Company has a cashable GIC at June 30, 2020 of $nil (December 31, 2019 - $300,000). Amounts receivable consists of service fees owed from a collaborative partner.

[b] Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's exposure to liquidity risk is dependent on its purchasing commitments and obligations and its ability to raise funds to meet commitments and sustain operations. The Company manages liquidity risk by continuously monitoring its actual and forecasted working capital requirements, and actively managing its financing activities. As of June 30, 2020, the Company had working capital of $431,186 (December 31, 2019 - $631,686).

[c] Market risk

[i] Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company is not exposed to significant cash flows fluctuations due to interest rate changes on its convertible notes as these bear interest at a fixed 9.5% rate. As such, fluctuations in the market interest rates during the six months ended June 30, 2020 and year ended December 31, 2019 had no significant impact on its interest income.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

[c] Market risk (continued)

[ii] Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has a portion of its operating expenses in U.S. dollars. The Company has not entered into foreign exchange derivative contracts. A significant change in the currency exchange rate between the Canadian dollars relative to the U.S. dollars could have an effect on the Company's results of operations, financial position or cash flows.

As at June 30, 2020, and December 31, 2019, the Company had the following assets and liabilities denominated in U.S. dollars:

	June 30, 2020 USD $	December 31, 2019 USD $
Cash and cash equivalents	1,431	1,491
Accounts payable and accrued liabilities	1,938	-
Total	3,369	1,491

Based on the above net exposure as at June 30, 2020, assuming that all other variables remain constant, a 5% appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a change of $168 USD (December 31, 2019 - $75 USD) in the Company's net loss. Furthermore, the company incurred $29,913 USD expenditures during the six months ended June 30, 2020 (June 30, 2019 - $51,096 USD). A 5% appreciation or deterioration of the Canadian dollar against the U.S dollar would result in a change of $1,496 USD.

[d] Capital disclosure

The Company's objectives when managing capital are to ensure its ability to continue as a going concern in order to pursue the development of its product candidates for ultimate sale or out-licensing. The Company attempts to maximize return to shareholders by minimizing shareholder dilution and, when possible, utilizing non-dilutive funding arrangements, such as collaborative partnership arrangements.

The Company defines its capital as share capital and contributed surplus and convertible debentures of $1,859,015. The Company has financed its capital requirements primarily through share and warrant issuances since inception and during the year ended December 31, 2019 issued convertible debenture units.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. The Company may issue new securities. The Company is not subject to any externally imposed capital requirements. Other than the issuance of convertible debentures, there were no changes to the Company's approach to capital management during the six months ended June 30, 2020 and year ended December 31, 2019.

For the Six Months ended June 30, 2020 and 2019 (Unaudited - Expressed in Canadian dollars)

16. SEGMENTED DISCLOSURE

The Company reports segments based on the financial information it uses in managing its business. The Company operates in two business segments with operations and assets in Canada. The Company's reportable segments are comprised of the development pipeline and the commercial platform. The Company has not earned revenue from the development pipeline segments during the six months ended June 30, 2019 and 2020. The revenue related to the commercial platform during the six months ended June 30, 2020 was $1,122,442 (June 30, 2019 - $726,259). The Company received revenues by providing promotional services to sell third party owned products, Tacrolimus IR and PRVistitan. The 100% of its generated revenues are from one arm's-length customer. The Company operates in one geographical segment being the Canadian Market.

Expenses from the two operating segments are summarized as follows:

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2020	Six Months Ended June 30, 2020 $	Six Months Ended June 30, 2019 $
Development pipeline [1]	13,740	52,493	28,057	121,571
Commercial platform [1][2]	270,296	451,185	721,442	960,281
General corporate expenses	481,614	575,841	1,004,305	1,058,372
Total	765,650	1,079,519	1,753,804	2,140,224

(1) There are no liabilities specifically associates with either of the two operating segments.
(2) The intangible asset at June 30, 2020 of $nil (2019 - $84,795) is associated with the Commercial platform (note 6(b))

17. SUBSEQUENT EVENT

[a] On August 6, 2020 the Company closed a public offering through the issuance of 31,250,000 units at a price of $0.08 per unit for aggregate gross proceeds of $2,500,000 (the "Offering"). Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant of the Company. Each whole warrant entitles the holder thereof to purchase one common share at an exercise price of $0.12 per common share until August 6, 2023. The warrants include an acceleration provision, exercisable at the Company's option, if the Company's daily volume weighted average share price is greater than $0.20 for ten consecutive trading days.

The units were issued pursuant to an agency agreement (the "Agency Agreement") between the Company and Cormark Securities Inc. (the "Agent"). In accordance with the Agency Agreement, the Agent received: (i) a cash commission equal to 5% of the aggregate gross proceeds of the Offering; and (ii) broker warrants (the "Compensation Warrants") equal to 5% of the aggregate number of Units issued and sold under the Offering. Each Compensation Warrant entitles the Agent to purchase one unit at a price of $0.08 per unit until expiry August 6, 2023, with each unit consisting of one common share and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Broker Warrant") of the Company. Each Broker Warrant will entitle the holder thereof to acquire one common share at an exercise price of $0.12 per common share until the date which is 36 months following the closing date, subject to adjustment and/or acceleration in certain events.

[b] On August 26, 2020 $20,000 of convertible debt was converted into 95,238 common shares and $269 of accrued interest was paid out.

[c] Subsequent to June 30, 2020, the Company granted 1,250,000 options to a consultant and an officer, exercisable at $0.13 per share expiring two and eight years from the grant date.